TREASURY RELEASES "BASELINE" REPORT ON THE COMMUNITY REINVESTMENT ACT: ANALYSIS SHOWS THAT CRA IS HELPING TO STRENGTHEN AMERICA'S COMMUNITIES EMBARGOED FOR RELEASE WEDNESDAY, APRIL 19, 2000

Today, the Treasury Department delivered a "baseline" report to Congress on the recent provision of services to America's communities as intended by the Community Reinvestment Act. The report shows that CRA has played – and continues to play – an important role in encouraging financial institutions to serve the homeownership, small business, community development, and financial services needs of communities across the nation.

The Treasury report was mandated by the financial modernization legislation signed into law in November 1999. The report was co-authored by a team of experts including: Robert E. Litan, Vice President and Director of Economic Studies at The Brookings Institution; Nicolas Retsinas, Director of the Joint Center for Housing Studies of Harvard University; Eric Belsky, Executive Director of the Joint Center; and Susan White Haag, a financial services attorney. Treasury Department staff guided the study, and received input and advice from the federal banking regulators. A follow-up study is required to be submitted to the Congress within two years of enactment of the financial modernization law. Key findings of the report include:

- **CRA-covered Institutions and their Affiliates Dramatically Increased Their Mortgage Lending to Low- and Moderate-Income Borrowers and Areas.** Between 1993 and 1998, depository institutions covered by the CRA and their affiliates made a total of $467 billion in mortgage loans to low- and moderate-income borrowers, and borrowers in low- and moderate-income neighborhoods. In 1998 alone, these institutions made $135 billion in mortgage loans to these borrowers, an *80 percent* increase over their lending in 1993.

- **CRA-covered Lenders and their Affiliates Increased their Mortgage Lending to Low- and Moderate-Income Borrowers and Communities at More than Twice the Rate of Increase for Other Borrowers.** The number of mortgage loans made by CRA-covered institutions and their affiliates to these borrowers and areas increased by *39 percent* between 1993 and 1998, while such institutions' loans to other borrowers increased by only *17 percent*. Over this period, the origination share of CRA-covered lender and affiliate mortgage lending within their own portfolios going to these borrowers and areas increased from 25 to 28 percent.

- **Subprime and Manufactured Home Lending Drove the Growth by Institutions Not Covered by the CRA in Lending to Low- and Moderate-Income Borrowers and Areas.** Fully 85 percent of the growth by non-covered institutions is attributable to lending by specialists in subprime and manufactured home lending, and 77 percent of the subprime lending growth is attributable to refinances, rather than home purchase loans. Subprime lenders specialize in lending to borrowers with impaired credit histories, who may not qualify for prime loans. As a result of the growth in subprime lending, non-covered institutions increased their market share of lending to low- and moderate-income borrowers and areas from 35 percent in 1993 to 37 percent in 1998.

- **Institutions Covered by the CRA and their Affiliates Increased Their Market Share in Prime Mortgage Lending to Low- and Moderate-Income Borrowers and Areas.** Lenders covered by the CRA primarily specialize in prime lending to borrowers without impaired credit. In this product market, covered lenders and their affiliates increased their market share of lending. In 1993, such lenders accounted for 66 percent of prime mortgage loans to these borrowers and areas; by 1998, their market share had increased to 71 percent.

- **CRA Lenders and Affiliates Increased The Share of their Lending Going to Low-and Moderate-Income Borrowers and Areas in Most U.S. Metropolitan Areas.** In 84 percent of the metropolitan areas studied, CRA-covered lenders and their affiliates increased the share of their mortgage lending going to low- and moderate-income borrowers and areas between 1993 and 1998, by from 1 to 12 percentage points. In 16 percent of metropolitan areas, the share of mortgage loans to these borrowers remained the same or decreased.

- **Small Business and Community Development Lending by CRA-covered Lenders Was Significant.** From 1996 to 1998, the first three years these data were collected, lending by CRA-covered institutions to small business located in low- and moderate-income communities averaged $33 billion annually. In addition, community development lending by these institutions averaged $17 billion annually. As more data are collected, researchers will better be able to assess the impact that the CRA has on these types of lending.